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UNCLAS TEL AVIV 000230

SIPDIS

SENSITIVE

E.O. 12958: N/A

TAGS: ECON EFIN IS ECONOMY AND FINANCE GOI INTERNAL

SUBJECT: 2005 Budget Passes First Reading

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Summary

¶1. (SBU) The Knesset approved on January 12 the first reading of the 2005 Budget and the 2005 Arrangements Bill by a vote of 64 in favor to 53 against. The vote included a number of surprises: Likud party rebels who are vehemently opposed to disengagement and threatened to deep six the budget vote to show their bloc's power voted with the rest of their party colleagues to pass the bills. They were joined by Sharon's new coalition partners, the Labor Party (excluding Amir Peretz's Am Echad faction) and United Torah Judaism. Opposition to the bill included Shinui, which, until leaving the government, had been one of the strongest supporters of the GOI's economic policies. While the anti-disengagement Likud MKs known as the rebels have already raised the prospect of voting against the budget in its second and third readings, today's first passage now gives Sharon the room to move forward on disengagement.

¶2. (U) The Budget and Arrangements Bill will now move to the Finance Committee and to other Knesset committees for further review and discussion. The Budget must be passed in second and third readings by March 31 or new elections must be called. End Summary.

NIS 1 Billion Lure Nets
The Required Votes

¶3. (SBU) The 2005 Budget, which totals NIS 264.5 billion (USD 59 billion), is essentially the same budget rejected by the Knesset in early December, but with additional earmarks demanded by the Labor and UTJ parties as a condition for joining the Government. Press reports estimate that Labor's fiscal demands totaled between NIS 600 million and NIS 700 million, whereas United Torah Judaism's demands stood at NIS 290 million. Finance Ministry contacts maintain that the new budget maintains the expenditure framework agreed upon by the previous coalition.

The GOI's 2005 Economic Agenda

¶4. (U) In his speeches before the vote, Netanyahu described 2003 as a year in which Israel's economic freefall was slowed and 2004 as a return to growth. The objective for 2005 is to strengthen growth. Netanyahu stressed continuing tax reduction, restricting increases in government expenditures (to 1%), and limiting the 2005 budget deficit to 3.4%, including disengagement.

¶5. (U) Beyond fiscal initiatives, Netanyahu referred to his objectives for 2005 of implementing the Bachar capital market and banking reforms as well as port reforms. He raised GOI plans for the privatizations of Bank Leumi and Discount Bank, as well as of the oil refineries. Other economic policies that the Finance Minister said the Government intends to execute include education reforms, implementation of the Wisconsin Plan to bring more long-term unemployed into the job market, electricity reforms, and a new investment encouragement law.
Kurtzer